FOREIGN EXCHANGE

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Foreign Exchange

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FOREIGN EXCHANGE

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THE FEDERAL RESERVE FOREIGN BANK

PUT THE AMERICAN DOLLAR AT PAR IN FOREIGN EXCHANGE

BECAUSE of war conditions the American dollar is at a serious discount in all of the neutral countries of Europe and throughout the world, notwithstanding the fact that the United States had a favorable balance of trade of over three thousand millions last year, and ten thousand millions since the war began.

It is important that American

business men, American bankers, American importers and exporters should understand this problem and the remedy for it.

The problem is not really a difficult one. It is the purpose of this little book to explain the problem; to show the factors entering into it; to show the remedy and point the path and mechanism by which to maintain the American dollar at par, and make it the medium of international exchange and of international contracts.

THE U. S. DOLLAR IN SPAIN

The American dollar should buy 5.18 pesetas, lire or francs on a gold par basis, but at present (August, 1918) will buy 8.90 Italian lire and about 3.5 Spanish pesetas, although

the gold value of the Italian lira and the Spanish peseta is identical. The reason for this is that Italy has an urgent demand for dollars in America to pay for the purchases of the Italian Government and of the Italian people, and the credits being extended to Italy for this purpose are being furnished at enormously high rates by private banks and capitalists, while Spain is selling more commodities than she is buying, is an international creditor, has no need for dollars, and pesetas in Spain are being sold at an artificial high price by private banks and capitalists. The Allies requiring Spanish pesetas are being charged enormously high rates for the pesetas required in Spain, which means that the pesetas are selling for 28 cents apiece instead of 19 cents and that

the gold dollar measured in pesetas is at a heavy discount and only worth 67 cents.

The gold dollar in New York instead of buying 67 cents' worth of Spanish gold currency should buy 50 per cent. more than it does, and American and Allied purchasers of Spanish goods suffer this 50 per cent. loss with the added penalty of war prices which makes the 50 per cent. loss probably 100 per cent., to which must be added the merchants' profit.

It is obvious, therefore, that the loss to the United States and to the Allies from a condition of this character ought to be promptly met. It can be done. It is necessary to understand foreign exchange, the factors entering into it, the means by which to economically settle international commodity trade balances

and to provide the mechanism under Government control through which the steps can be taken to obtain the desired results.

I desire, therefore, to explain the factors entering into foreign exchange, the steps required to bring the dollar to par, the steps required to keep the dollar at par, and the mechanism necessary to make effective the proposed policy.

FOREIGN EXCHANGE DEFINED

Foreign exchange is a broad term referring to the business of international bills of exchange. These bills of exchange take the form of drafts representing an evidence of debt in the form of a negotiable instrument, the drawer or maker constituting the creditor, the drawee the

debtor, and the title to such bill being vested in the payee. These drafts take the form of acceptances, often endorsed by acceptance banking companies. When drawn against merchandise exported they are often accompanied by documents—such as the receipt of the transportation company, or bills of lading, certificates of insurance, certificates of inspection, weight, etc. These foreign bills of exchange may be drawn against securities which are sold as merchandise. They may appear as authorized commercial or banking credits or as finance bills.

They may be drawn against actual cash funds or credits in banks, but, whatever they are, they comprise at last merely the order of the drawer or maker upon the drawee or debtor to pay to a payee a certain amount

of money in the currency of the country upon which they are drawn, in pounds sterling in London, in pesetas in Spain, in francs in France, in lire in Italy, in dollars in New York. The forms of these bills are well established and can be found in any of the many comprehensive works on international exchange.

These bills may be at sight, payable on presentation, or thirty, sixty, or ninety days; they may be with documents attached or without documents attached; they may be acceptance bills or payment bills. The scope of this book does not permit of an elaborate discussion of the mere forms of such bills or the mechanism employed by the banks in handling such bills or the mathematics of converting one currency into another.

BALANCE OF TRADE

When a country is shipping more goods in the form of commodities than she is receiving, it is said that the *balance of trade is favorable.* The term "balance of trade" is apt to be misleading. It is a convenient phrase relating to commodity shipments alone as they appear on the record of outgoing and incoming ships, which are always subject to Government inspection and from which a definite and accurate compilation can be made and is made. If such "balance of trade" runs against a country the actual balance of commodity *indebtedness* must be made up by shipments of gold, securities or transfer of credits.

Outside of commodities which ap-

pear in making up the balance of trade there are a number of invisible factors, not of statistical public record, which go to determine the extent to which the citizens of one country may be indebted to those of another, and by which the international debts are actually settled. These elements are not absolutely available in the form of statistics and can be only roughly estimated. Taking the United States as an example, there are certain factors not tabulated by the Bureau of Statistics at Washington because their proportions are unknown to the officials. These are the elements which comprise the invisible factors in determining the settlement of international debts. The transfer of money or credit from the United States to other countries (outside of commodities)

FOREIGN EXCHANGE

is accomplished in the following ways:

FACTORS AFFECTING INTERNATIONAL EXCHANGE

1st. The purchase by citizens or corporations in the United States of securities or properties of any kind (outside of commodities actually shipped, otherwise accounted for) in other countries;

2nd. The payment of interest or dividends on American securities and properties owned by foreigners;

3rd. The payment of loans due foreigners;

4th. The payment of passenger and freight rates to foreigners owning foreign vessels;

5th. Money expended by Americans touring abroad;

6th. Remittances by foreigners in the United States to their friends or dependants abroad;

7th. Loans by the United States to foreign countries, which during this war are reaching gigantic proportions, or loans by U. S. banks or citizens to foreigners;

8th. Remittances from the United States to pay for foreign securities marketed in the United States, which have reached very large proportions during this war

In like manner all of these unrecorded factors or any of them may apply to any of the foreign countries and transfer money or credits to the United States. For instance:

1st. The purchase by foreign banking corporations or individuals of American securities or properties;

2nd. The payment of interest or dividends on foreign securities or properties held by American capitalists;

3rd. The liquidation of loans negotiated by Europe or foreign bankers in America;

4th. The payment to Americans of passenger and freight service on American ships by foreigners;

5th. The money expended in America by foreign persons traveling in America;

6th. Remittances to persons within the United States from foreign friends or relatives;

7th. The lending of money to the United States, or to citizens, bankers, or corporations of the United States by foreign Governments, bankers, or citizens who might make loans on American bonds or American evidences of debt;

8th. The payment for insurance due to American Insurance companies.

The "balance of trade" relates only to commodity shipments. When

a country ships less commodities than it receives it must make up the difference by shipping gold, shipping securities, transferring bank credits, or rendering service, such as insurances, passenger and freight, wharfage and dockage, or entertaining travelers.

COMMODITIES PAY FOR COMMODITIES

If the term "commodities" were broad enough to cover all of these factors, then it might be properly said that the debts of the citizens of one nation to the citizens of another nation were all covered by exchange of commodities.

This is so far recognized that it is a common expression to say that all imports are paid for by exports, be-

cause no nation can except for a limited time pay its commodity trade balance in gold without exhausting the gold upon which the credit of its currency is based.

GOLD EMBARGO AND DOLLAR PARITY

The reason of the gold embargo in Great Britain and in France, in the United States and in Germany at this time is that it is of recognized importance that there should be available a sufficient supply of gold to safeguard the paper money issued by these nations. For unless the paper currency is always freely exchangeable for gold the people would be unwilling to receive the paper money on a par with gold. When the paper money is not on a par with gold the people immediately would

pay their debts in terms of the cheaper currency, and every contract in the country would be disturbed by the standard measure of value of contracts being thus suddenly impaired. People in the United States, for example, enter into millions of contracts measured in terms of dollars and they do not say a gold dollar, unless it be in some formal important contract, so that if the dollar in paper money should not be equal in value to a dollar in gold, all those owing dollars in such current business would meet their debts in the paper dollar. All business people recognize the importance of maintaining the American dollar at par in domestic transactions. It was a day of triumph after the Civil War when the United States reached a point at which "resumption of specie

payment" occurred; a never-to-be-forgotten day in America's financial history. The American people would not submit for a moment to have their paper money worth ninety-nine cents on the dollar; they demand it shall be worth a hundred cents on the dollar, yet we are faced with the astonishing condition that an American gold dollar in New York, under embargo, is worth only 67 cents in Spain at 28.50 cents per peseta normally 19.30 cents.

In other words, a gold dollar in New York worth sixty-seven cents in Spain must have fifty per cent. added to it to buy one hundred cents' worth of Spanish oil in Barcelona. It takes three such gold dollars in New York to be worth two gold dollars by weight in Spain.

WHAT IS THE EFFECT OF THE AMERICAN DOLLAR AT A DISCOUNT IN SPAIN?

The effect is that we pay three dollars in gold in New York and get two dollars of gold credit in Spain. Our money buys fifty per cent. less than it ought to. The same thing is true, of course, of a British pound sterling and of the French franc. It is perfectly obvious that this rate of exchange is imposing a ruinous cost upon the United States and the Allies —just to the extent that they are compelled to buy pesetas at this rate for the purpose of making purchases in Spain. It must be remembered also that the prices in Spain are on a war basis — in other words, that commodities have

nearly doubled in price, even in terms of Spanish money so that the fifty per cent. extra which we pay in gold for Spanish currency is in reality doubled, and this exchange is thus actually costing us nearly one hundred per cent. In the meantime to correct this our country has adopted the questionable policy of imposing an embargo on the shipment of Spanish goods to the United States, or the buying of Spanish goods by American merchants. The effect of this is that olive oil has gone from two and a fraction dollars a gallon to eight and ten dollars a gallon, as every American business man should know. The commodity embargo policy is undesirable, for there is a much better policy available which I wish to point out.

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THE CAUSE OF THE DEPRECIATION OF THE AMERICAN DOLLAR ABROAD

The imports and exports from the United States in 1917 amounted to over nine billion dollars. The exports amounted to six billion, two hundred and thirty-one million; the imports to two billion, nine hundred and fifty-two million, with a favorable balance of trade to the United States of approximately three billion, one hundred and eighty million. I submit on the following pages a table of these imports and exports:

Exports to—	Month of December—		12 months ended December—	
	1917	1916	1917	1916
Grand divisions:				
Europe	$323,690,436	$349,558,509	$4,054,362,029	$3,813,278,324
North America	155,135,812	93,285,797	1,264,688,666	924,553,649
South America	33,700,646	22,787,859	312,420,985	220,266,818
Asia	60,465,901	42,447,145	431,149,591	364,959,155
Oceania	14,591,876	9,751,896	117,158,921	105,572,649
Africa	6,279,609	5,402,574	51,464,784	54,010,506
Total	593,864,280	523,233,780	6,231,244,976	5,482,641,101
Principal countries:				
Austria-Hungary	....	....	....	61,771
Belgium	8,400	6,691,023	22,628,659	30,998,928
Denmark	134,363	4,165,928	32,388,864	56,329,490
France	73,564,381	58,706,507	940,810,070	860,821,006
Germany	....	1,142,353	3,275	2,260,634
Greece	1,030,494	1,431,702	8,477,603	33,685,689
Italy	46,162,066	37,974,651	419,095,473	303,530,476
Netherlands	7,899,931	11,345,624	90,520,301	113,730,162

Norway	1,668,338	4,234,745	62,866,850	66,209,717
Russia in Europe	816,462	23,097,932	314,639,528	309,806,581
Spain	10,159,988	6,577,521	92,409,320	64,316,888
Sweden	503,364	5,900,309	20,900,854	47,967,590
United Kingdom	177,433,009	185,209,430	2,001,031,104	1,887,380,665
Canada	101,767,255	60,939,523	829,972,331	604,908,190
Central America	4,861,129	4,008,658	52,206,466	46,531,841
Mexico	15,485,408	4,415,374	111,111,541	54,270,283
Cuba	24,652,166	18,846,295	196,350,315	164,666,037
Argentina	11,553,945	7,192,128	107,641,905	76,874,258
Brazil	6,566,030	5,210,987	66,207,970	47,669,050
Chile	7,586,866	3,919,899	57,483,996	33,392,887
China	6,366,898	3,645,538	40,208,612	31,516,140
British East Indies	7,290,060	3,775,091	42,746,749	30,799,916
Japan	40,199,201	14,821,946	186,347,941	109,156,490
Russia in Asia	525,675	16,540,391	109,169,243	160,701,673
Austria and New Zealand	6,474,755	7,351,503	76,909,225	81,305,968
Philippine Islands	7,804,316	2,268,853	38,148,726	22,775,491
British Africa	5,215,449	2,508,294	39,023,443	32,448,177

Statement of imports and exports, 12 months ended December, 1917.

	Exports.	Imports.	Balance in our favor.
Netherlands	$90,520,301	$22,744,504	$67,775,797
Norway	62,866,850	6,280,233	56,586,617
Spain	92,469,320	36,881,630	55,587,690
Sweden	20,900,854	18,069,487	2,831,367

DEPARTMENT OF COMMERCE,
BUREAU OF FOREIGN AND DOMESTIC COMMERCE,
Washington, February 4, 1918.

IMPORTS AND EXPORTS, BY GRAND DIVISIONS AND COUNTRIES.

Total values of merchandise imported from and exported to each of the principal countries during December, 1917, and the 12 months ended December, 1917, compared with corresponding periods of the preceding year, were made public to-day by the Bureau of Foreign and Domestic Commerce of the Department of Commerce, as follows:

Imports from—	Month of December—		12 months ended December—	
	1917	1916	1917	1916
Grand divisions:				
Europe	$40,617,322	$59,107,818	$551,144,599	$633,316,886
North America	56,506,340	47,686,900	871,982,524	658,438,120
South America	49,669,439	43,786,488	598,818,532	427,609,562
Asia	62,142,195	45,422,209	758,237,165	516,704,047
Oceania	12,792,804	4,827,542	99,221,196	93,673,382
Africa	6,183,397	4,003,231	73,063,939	61,893,338
Total	227,911,497	204,834,188	2,952,467,955	2,391,635,335

Principal countries:				
Austria-Hungary	....	27,980	64,937	631,251
Belgium	....	156,835	158,022	1,479,342
France	8,662,632	10,488,210	98,639,653	108,893,119
Germany	451	138,269	159,352	5,819,472
Italy	3,219,301	4,789,202	36,480,807	60,235,172
Netherlands	747,674	3,689,940	22,744,504	43,602,076
Norway	261,481	844,802	6,280,233	6,430,316
Russia in Europe	2,661,145	83,848	12,350,179	4,478,990
Spain	3,496,232	3,675,167	36,881,630	32,577,377
Sweden	329,403	5,505,941	18,069,487	18,856,638
Switzerland	1,826,252	1,927,928	19,834,668	22,414,383
United Kingdom	16,874,793	25,765,390	280,080,175	305,486,952
Canada	36,232,364	23,753,953	413,674,846	237,249,040
Mexico	9,858,406	10,399,693	130,434,722	105,065,780
Cuba	5,053,741	9,108,597	248,598,199	243,728,770
Argentina	17,560,443	12,509,181	178,245,833	116,292,647
Brazil	8,233,119	14,286,609	145,274,931	132,067,378
Chile	13,618,362	5,914,498	142,597,929	82,123,995
China	8,402,995	6,352,337	125,106,020	80,041,851
British East Indies	20,992,304	17,138,997	259,629,897	201,190,844
Japan	23,692,557	17,268,621	253,669,709	182,090,737
Australia and New Zealand	7,403,284	1,682,769	32,002,203	55,826,228
Philippine Islands	4,633,395	2,718,912	62,386,641	34,162,081
Egypt	....	2,944,041	27,352,444	29,533,795

It will be seen from this table that our commodity trade balance with Spain was in our favor by fifty-five million, five hundred eighty-seven thousand, six hundred and ninety dollars. Therefore, Spain needed fifty-five million dollars more than was due her on the difference of shipments to Spain from the United States of commodities, and the shipment of commodities by Spain to the United States. Why, then, was not the dollar at a premium instead of the Spanish peseta being at a premium? The reason was that the United States had loaned to her Allies two billion dollars more than the favorable "trade balance" of the United States, and these loans in terms of dollars had been used by our Allies to settle their debts with Spain, as an international commodity

trade creditor to an approximate amount of over a hundred million of dollars in value, who did not need these dollars, or pounds sterling, or francs. The Spanish banks did place substantial balances in Paris, London and New York, but there was still due to Spain for commodities a large amount which had to be settled in some way. Great Britain, France and the United States had an embargo on gold and we could not settle these balances by gold because of the gold embargo. If we had settled the balances in gold the dollar would have gone to par and so would have the pound sterling and the French franc, but we were compelled, because gold was not available, to borrow this money from Spain in some form or other, and it was borrowed in some form or

other from Spanish merchants, business men, and Spanish banks in many ways, but those who borrowed the pesetas from Spain, or those who loaned our people the pesetas in Spain, sold those pesetas to the citizens of the United States at a tremendous price. The credit extended is taking advantage of war conditions to extort an unendurable price for the use of this Spanish credit during the war, and fully justifies adequate steps being taken to correct it.

PENALTY OF APPRECIATED CURRENCY

In fact the natural laws of economics impose at once a severe penalty upon Spain, for example: America has quit buying Spanish oil; America is substituting peanut oil,

and the world is finding means to get along with a minimum use of Spanish commodities. In the meantime it is dislocating Spanish business, which will reappear later as a very substantial loss to Spanish commerce.

The Allies are buying only essentials in Spain, and the non-essential business of Spain is going through commercial depression.

Spain lost almost her entire grape crop, her tomato crop and other perishable articles because there was no adequate market.

Because Spain was piling up credits not properly employed in being loaned at acceptable interest she was led to purchase non-essentials at war prices, doing Spain a commercial injury. While certain individual banks or bankers might profit by the sale

of pesetas at the high rate, it has the effect of permanently diverting trade from Spain, stimulating exports to Spain of commodities at high prices and depressing exports from Spain to other countries, lowering the status of the commercial life of Spain so that Spain pays a serious penalty under the economic law.

It would have been much better for Spain to buy Spanish securities held by foreign countries, to make temporary loans to countries compelled to buy in excess from Spain, or to the nationals of such countries against adequate securities—better for Spain and better for her commercial customers. True commerce in its highest and best form serves equally well both parties to such commerce.

Spain also adopted the policy of refusing to take foreign gold except at a discount, on the theory that she did not desire to expand her currency, and in that way cause a rise in the price of labor and commodities in Spain. The effect of this was to deprive other nations of a fair means of settling commodity trade balances with Spain, and had the effect of automatically raising the prices to foreigners of Spanish commodities, thus serving to dislocate Spanish trade.

These unfavorable conditions in Spain have also led many people in the Entente Allied Countries to believe the Spanish policy was swayed, if not controlled, by German influences and after this war this opinion may prove commercially injurious to Spain.

HOW TO PUT THE DOLLAR AT PAR

What are the possible remedies for this discount of the American dollar in Spain?

1st. The shipment of gold in such volume as to meet the international commodity trade balance in favor of Spain would at once put the dollar, the pound sterling and the French franc to par, but in order to safeguard the currencies of the nations during the war it is not deemed expedient to ship gold at this time. When the war closes Spain, having depleted itself in commodities and having accumulated for these commodity shipments large volumes of credits, will be in a position immediately to buy from other countries and she will become almost at once a commodity trade debtor, which will bring Spanish currency down to par and bring the currency of other countries up to par in Spain;

2nd. Cutting off purchases from Spain of commodities and expanding the shipment of commodities to Spain would be another factor of importance in bringing Spanish currency down to par and other currencies up to par, but is injurious both to Spain and to the countries driven to adopt this policy.

[This remedy is only partially available because the Allies for war purposes need available Spanish commodities and are only cutting off non-essential goods, depressing Spanish commerce engaged in what are not necessities for war and unduly stimulating Spanish business in commodities required for war. The undue stimulation of one line of commodities and the depreciation of another line of commodities is injurious to the normal business of Spain and at

whatever price will be corrected with the revival of peace by an injurious reaction of the industries engaged in commodities required for war, while other industries not required for war which have been impaired must be rehabilitated.]

3rd. The remaining and most available and economical factor by which this unhealthy condition of a highly appreciated Spanish currency and severely depreciated Allied currency in Spain can be corrected, is *by credits extended* by Spanish *banks* and Spanish *merchants* and Spanish *business people* during the period of the war to the extent of their favorable trade balance. This can be accomplished in various ways:

(a) Spanish banks can leave balances in New York, London and Paris. They are doing this but not on a basis of a fair rate of interest, superficially,

because these balances in New York, for example, are only paying two or three per cent. However, since the Spanish pesetas are sold for American dollars, selling on the exchange for but sixty-seven cents in New York, the Spanish banks buying such dollars will make a profit of fifty cents when the war ends and the dollar reacts to par.

The same thing is true of United States banks that buy pesetas in Spain at an acceptable rate of interest there for the period of the war. This is being done to a certain extent and American banks thus buying American dollars at sixty-seven cents, thro Spanish loans will make a profit of fifty per cent. on such dollars when the dollar reacts to par and gold can be freely shipped.

It is obvious that American com-

merce and Allied commerce and Spanish commerce is being subjected in this way to a serious injury with compensatory benefits to the Spanish and American bankers who are selling credits in Spain.

METHOD OF PLACING CREDITS ABROAD

It ought to be possible for American banks, for British banks, for French banks against adequate securities to borrow in Spain at an acceptable rate of interest Spanish credits necessary to liquidate the comparatively small favorable Spanish commodity trade balance. This amount is in the neighborhood of a hundred million dollars per annum. This might be accomplished by vigorously campaigning in Spain with the

consent, sympathy and assistance of the Spanish Government officials for the sale in Spain of the War Finance Corporation Bonds, payable in terms of pesetas running five years, of liberty bonds payable in pesetas, etc., etc., using every available agency to correct the condition so injurious to Spain and to the Allies.

I insisted when the War Finance Corporation Bill passed the Senate upon putting in an authority that these bonds might be issued in terms of foreign currency to accomplish this very purpose, and it became a part of the Act, and later a like provision was made a part of the Act authorizing bonds for the Third Liberty Loan. These bonds could be bought by American importers, or by British and French importers and sold in Spain if necessary at a

sufficient discount to obtain Spanish credits against the necessary purchases of the Allies or of the merchants in the Allied countries. In this way the Spanish business men would have a security bearing a satisfactory rate of interest, payable in terms of their own money, and would thus be assured of receiving their own money on a gold par basis with a satisfactory rate of interest. This would suffice, if properly carried out, in bringing the American dollar to par in Spain, and to bring the British pound sterling and the French franc to par in Spain. To accomplish it, however, requires a mechanism making it somebody's business to do this, to carry on an adequate campaign to place these securities.

As it is we have no adequate mechanism with which to handle it.

American or Spanish banks who place credits in Spain and carry credits in Spain till the war ends will make fifty per cent. on every gold dollar at 67 cents they buy in the United States, into Spanish pesetas at 28.50. They have no public interest to serve in preventing such conditions. They are themselves engaged in profiteering on American commerce and on Allied commerce. We have seen men trained as American bankers deliberately advocating that it was best for the United States to have its dollar at a discount, contrary to reason, contrary to common sense, and most injurious to the United States, to Great Britain and to France, interfering with the successful prosecution of the war and actually serving the interest of Germany by indirection. I am willing to

assume that these gentlemen advocating the dollar at a discount are not moved by unpatriotic purposes, but the result is injurious to America and favorable to Germany and is contrary to the public interest, while it is highly favorable to profiteering by private interests.

DUTY OF GOVERNMENTS

The United States, Great Britain, France and Italy should use the firm strong hand of organized government to prevent such harmful imposition of usurious rates on the resources of the Allies now engaged in deadly war. Exchanges are commodities, and governments able to fix prices on commodities and fair interest rates on bonds can fix reasonable exchange and interest rates on

international bills, and prevent the sale of pesetas above 19.30 or gold par and prevent the sale of lire at 11 cents and then buying the offerings at 19.30 and refusing to allow the sale at any other rate. American, English and French banks refusing to buy pesetas except at gold par would end the false values put arbitrarily on pesetas as far as exchange is concerned on the loan of pesetas.

In order to sell pesetas there must be both a seller and a buyer. If the Governments of Great Britain, France, Italy and the United States can control the banks of those countries and prevent their buying pesetas at an exorbitant rate the market for pesetas would be measurably controlled. The selling of pesetas at a grossly usurious rate is against public

policy. It is against the interests of the Allies. It is a gross injustice because it has the effect of taxing the Allies fifty per cent. for the use of Spanish credit which ought to be extended, if extended at all, on a reasonably decent basis. Therefore, the Governments of the United States, Great Britain, France and Italy would be justified, as a war measure, in forbidding the banks of the great belligerents from buying pesetas except on terms of reasonable interest charges, considering war conditions.

Moreover, there should be concerted action by the four belligerents in making representations to the Spanish authorities as to the injustice to the Allies of the Spanish exchange situation, and that the highly appreciated Spanish cur-

rency, or Spanish credits, is doing positive harm to Spanish commerce, as I have otherwise pointed out.

If Spain sells the Allies goods and charges fifty per cent. for the use of Spanish pesetas, it has the effect of discriminating against Allied purchases as compared with Spanish purchases to the extent of fifty per cent., which is contrary to commercial justice, and by controlling the exchange rate, through the control of the banks in New York, London, Paris and Rome, an equitable condition might be restored. At the same time it is obvious that credits properly secured and at proper rates of interest ought to be placed in Spain through agencies otherwise pointed out in this brochure.

THE EFFECT ON ITALY

Italy's purchases in 1914 were five hundred sixty-four millions for imports against which she exported four hundred twenty-six millions; in 1915 her imports were nine hundred and seven millions against four hundred eighty-eight millions exports. When she got fully into the war in 1916 her imports were sixteen hundred and nineteen millions against five hundred and ninety-six millions exports. In 1917 her imports were fourteen hundred and twenty-nine millions; her exports four hundred and thirty-five millions. Italy's bonds at five per cent. have been selling for eighty-six cents on the dollar, and an American dollar in New York will at current exchange buy about nine lire to the dollar, and one dol-

lar, now (August, 1918) will actually buy ten lire of Italian bonds bearing five per cent., so that such bonds would return the investor ten per cent. payable in lire, which after the war must come back to par, and gives the investor a hundred per cent. bonus besides.

This means that brave Italy, shedding her blood lavishly on the battlefields for the liberty of mankind, is paying a hundred per cent. on top of war prices for the supplies required by her people, except goods sold her on credit by her Allies.

There are several reasons for this:

First.—To the extent that Great Britain, the United States and her Allies are not extending credits on a normal basis to Italy, Italian purchasers are compelled to rely upon

private credits extended by citizens of other countries, who may or may not understand the stability of the Italian Government, nor the financial security of loans extended to Italian purchasers. The element of hazard, lack of knowledge and desire for gain of the private creditors of Italy are important elements in determining the enormous cost to Italians of credits for their purchases for war needs. To the extent that the United States, for example, furnishes credits to Italy, Italian purchasers only pay the ordinary war prices, but precisely to the extent that private credit is extended to Italy, Italy at present is paying approximately ten per cent. interest and a hundred per cent. bonus on the credits extended to her. This should be immediately corrected.

This egregious example will demonstrate the importance of obtaining for Italy sufficient credits at fair rates to cover her purchases during the war, and it illustrates precisely and fully the necessity of providing the United States with like credit facilities at fair rates for purchasing from Spain, from the European neutrals and from other nations where there is a depreciation of the currency of the United States.

The United States is paying from fifteen to forty per cent. on her purchases in nearly all the nations except in the countries of Great Britain, France and Italy or their immediate Allies, to whom the United States is extending large credits. It is perfectly obvious that there ought to be immediately organized a scientific, a

well-balanced, systematic mechanism for handling this problem, for studying its details in every country in the world. We have no such organism. The Treasury Department through the Federal Reserve Board undertakes to look after the gold and silver embargo. It has a sub-committee passing on licenses to ship gold and silver. This sub-committee passes on applications for the right to ship gold and silver, and is refusing to permit many shipments without providing any means by which the foreign indebtedness intended to be covered by gold shipments can be otherwise covered by gold credits. This imposes a cost of destructive interest rates upon our business men requiring gold or foreign credits with which to settle foreign obligations.

IN THE ARGENTINE

In the Argentine American purchases have exceeded American sales to the Argentine during the last year, or since we entered the war, by about sixty million dollars. The Reserve Board was enabled to effect an arrangement through which Argentine gold credits were placed in New York on satisfactory terms until the war should be over.

This is one of the means by which to adjust our foreign purchases on a basis which requires us only to pay a fair rate of interest for the indebtedness due such country, but it is *not* the only way; the sale in the Argentine of American securities, of Liberty Bonds, payable in pesos, of War Finance Corporation Bonds, payable in pesos, or secured

bank loans there, would suffice to effect the same ends. Such sales would be equivalent to shipping commodities to Argentine in settlement of our trade balance.

But if British merchants and banks, if French merchants and banks, if American merchants and banks were freely furnished the right to buy Liberty Bonds and War Finance Corporation Bonds payable in terms of pesos, thousands of individual adjustments could be made through such securities or with such securities as a basis of credit for the period of the war.

Argentine has a favorable trade balance. Argentine has the money and credits to lend. Argentine cannot otherwise conveniently employ these funds which are in excess of her normal requirements.

Argentine is therefore in a favorable position to make such loans, just as Spain is; moreover, if Argentine does not make such loans she will have her trade injured in a manner which was pointed out above in relation to Spain.

The United States also controls through the War Trade Board the issuance of licenses covering imports and exports. These licenses can be serviceable in bringing the dollar towards par by opposing no obstruction to the export of goods not required for actual war purposes to countries to which America owes a balance of trade.

The Shipping Board, as far as the war permits, should encourage furnishing bottoms to take supplies of commodities to those countries where America owes a trade balance in

order to liquidate such balances as promptly as possible.

The Federal Reserve Board, or the Treasury Department, acting under the authority given by Congress to the President, to control the transfer of credits to and from the United States, has a Department under the management of Mr. Fred I. Kent, with offices in New York and in the Treasury Department, which visés transfers of credits to and from the United States. This Department should facilitate in every way possible the placing of American securities, especially War Finance Corporation Bonds and Liberty Bonds, payable in terms of the currencies of the country to which they may be sold, or in which they may be placed as security, and should exercise every effort to place public and private

credits in such countries where America or the Allies are in debt to overcome the depreciation of the American dollar and of the Allied currency, and to bring down to par the currencies of such foreign countries in relation to the United States and in relation to the Allies; otherwise the United States and the Allies will continue to suffer the enormous cost of these usurious credits which appear in so egregious a form in regard to Italy, but which in degree applies with equal force to the United States, to Great Britain and to France in their purchases from various other countries.

In 1917 the United Kingdom imported five billion, one hundred and eighty-four million, and exported two billion, eight hundred and ninety-four million; her excess imports were therefore over two billion, two

hundred million. France had an excess of imports over exports of over two billion. Italy had an excess of imports over exports of over a billion, but the total imports of the United States, the United Kingdom, France and Italy amounted to over twelve billion dollars, a large part of it from neutral or non-belligerent countries who had a favorable balance of trade, and upon which the exchange rate ran from ten to fifty per cent. The loss of these gigantic war purchases which took place outside of the United States, Great Britain and France, probably exceeded a billion dollars because of the adverse exchange rate.

Such loss can be corrected by the United States, Great Britain, France and Italy by intelligent, comprehensive, co-ordinated employment of

credits and government power. It is a question of an orderly arrangement by which to systematically accomplish this end.

The United States has as its only agency the Federal Reserve Board and the Treasury Department. The Secretary of the Treasury, occupied by many cares, being Director General of the Railroads of the United States, charged with the duty of collecting and disbursing the gigantic revenues, framing revenue plans, acting as Chairman of the Federal Reserve Board, of the Farm Loan Board, of the War Risk Insurance Bureau, and in charge of the Public Health Service, besides supervising all of the public buildings of the United States, not to mention miscellany, cannot give it much personal attention.

The Governor of the Reserve Board not only has the supervisory control of the Federal Reserve Banks with thirty-eight hundred millions of resources, supervising also the member banks, exceeding eight thousand, but is in active charge of the War Finance Corporation.

The question of adjusting these exchanges cannot receive the personal attention of either the Secretary of the Treasury or the Governor of the Reserve Board. The members of the Reserve Board are charged with duties of the gravest responsibility, enough to occupy their entire attention.

Mr. Oscar T. Crosby, the very able patriotic Assistant Secretary of the Treasury, is trying to adjust the exchange in Spain and Italy; he is now in Europe engaged in this very

important business. Mr. Albert Strauss is acting as adviser of the Treasury in connection with the foreign exchange problem.

BRITISH FINANCIAL POLICY

Great Britain, when the United States entered the war, pegged the pound sterling in New York at \$4.76–7/16, which means that Great Britain through Morgan and Company, the agent of the Bank of England, engaged to buy all drafts on England payable in pounds sterling at \$4.76–7/16 for each pound sterling on the face of such bills. This was accomplished by the United States Treasury furnishing the money to Great Britain against British bonds, which enabled Great Britain and British merchants to buy in the

United States the goods she required without paying usurious rates of interest for such credits. Except for the backing of the United States Government the pound sterling would have been most seriously depreciated in the United States and in the entire world.

Great Britain, the wisest of all financial countries, thoroughly understood this problem and put the pound sterling within two per cent. of commercial par—for the purpose of protecting Great Britain against the gigantic loss due to an adverse international exchange. The United States must pursue the same policy and make it effective with other countries. She has no adequate organization by which it may be accomplished.

It might be said—why do not the

great New York, Chicago and Boston banks take steps to protect the United States against this loss thro the depreciated dollar?

The answer is—It is none of their business.

The answer is—They handle these bills as commodities coming over their counter; they buy them and sell them at the market, and the market is fixed by persons who appraise the matter purely from a standpoint of profit, and commissions based on an estimate of implied risk. Banks buy Spanish pesetas and sell Spanish pesetas to other banks all over the world; they do not look at the matter from a public standpoint, and it is not to be imputed to them as a fault because they do not regard this question from a public point of view.

Since the war arose gigantic volumes of foreign securities have been placed on sale in the United States which serve to protect them against an adverse exchange in the United States.

By these means other nations have undertaken to protect themselves against an adverse balance of trade in the United States due to the great shipments of goods from the United States. A similar policy is necessary for the United States to protect itself in turn.

It will thus be seen that the United States has loaned its Allies five thousand, five hundred and nineteen millions, and that there have been floated in the United States in addition gigantic volumes of securities of other nations, amounting probably to a still larger sum. In addition to this

we have bought from Europe and paid for several billion dollars of American securities held in Europe.

We have also met the cost of conducting the expense of the United States in preparing for war on Germany and Austria.

THE PRODUCTIVE POWER OF AMERICA

It has been estimated by excellent authority that the productive power of the United States, including the products of agriculture, of the mines, of the forests and factories on one turnover, exceeded sixty billions for last year (1917). The actual resources of the banking power of the United States, as shown by the tabulated returns, is over thirty-nine billions, so that the United States is

financially the most powerful nation in the world; its credit is superior to that of any other nation in the world; its actual gold in the Federal Reserve Bank amounts to eighteen hundred millions, and in the Treasury it amounts, with the silver included, to twenty-eight hundred millions. The power of the United States properly organized and properly directed is sufficient to put the United States dollar at par throughout the world and keep it at par.

THE DOLLAR AT PAR

Every intelligent man understands the extreme importance of keeping the United States dollar at par in the United States, and it is of equal importance, according to the business transacted, to keep the United

States dollar at par in our foreign business. We bought last year from other nations nearly three billion dollars' worth of goods.

If the United States dollar is put at par and kept at par it will become a stable measure of value in international contracts and will enable merchants all over the world to use the American dollar as a standard measure of value. This will lead to international business being transacted on American dollars and will establish the prestige of the United States throughout the world according to the actual financial and commercial strength of the United States.

AMERICAN MERCANTILE MARINE

After the war America will have a gigantic international mercantile ma-

rine, which must be employed in international commerce; otherwise it will pass into the hands of other nations who will employ such ships in commerce. As a means of maintaining American commerce and keeping the American merchant marine employed we must expand our export business, and one of the factors of vital importance is to have adequate foreign banking facilities, information and credit furnished our exporters and our importers.

The banking capital employed in the foreign exchange department of the American banks probably will not amount to $200,000,000. The usual bills are 30, 60 and 90 day bills, so that the available American Capital in this service is by no means adequate to handle the foreign business. Our imports and

exports in 1917 were over nine billions. We ought to handle a large part of foreign international bills, for we have the banking power if it were organized and employed. As a means to this end I have introduced a bill in the United States Senate (Sen. 3928) which I fully explained in the Senate Feb. 25, 1918, to establish a Federal Reserve Foreign Bank.

FEDERAL RESERVE FOREIGN BANK

The Federal Reserve Foreign Bank proposed by Senate Bill 3928 is strictly in line with the policy of the Federal Reserve Act in the powers granted to the Federal Reserve Banks, and is intended to make effective the principles of the Federal Reserve Act itself.

The Federal Reserve Act author-

ized the Federal Reserve Banks in Sections 13 and 14 to receive deposits, discount commercial bills and acceptances, deal in gold and silver, to exchange Federal Reserve notes for gold, to contract for loans on gold coin or bullion, giving therefor when necessary acceptable security, including hypothecation of United States bonds or other securities which Federal Reserve Banks are authorized to hold, to buy and sell at home or abroad bonds and notes of the United States, of foreign Governments, etc., buy and sell commercial bills of exchange, to issue bank notes and receive Federal Reserve notes, to open credits at home or abroad, to open and maintain accounts in foreign countries, appoint correspondents and establish agencies in such countries wheresoever it may be deemed

best for the purpose of purchasing, selling, or buying bills of exchange or acceptances, arising out of actual commercial transactions which have not more than ninety days to run and which bear the signature of two or more responsible parties, and with the consent of the Federal Reserve Board, to open and maintain banking accounts for such correspondents or agencies, etc.

The original Federal Reserve Act also provided, in Section 25, that any National Banking Association with a capital surplus of a million dollars, or more, might be permitted to establish branches in foreign countries for the furtherance of the foreign commerce of the United States and to act as fiscal agents of the United States.

Such National Banks are also au-

thorized to take stock in banks or corporations, chartered under the laws of the United States or of any State thereof, and principally engaged in international or foreign exchange.

Under Section 25 some of the National Banks have established branches in foreign countries.

Some of them have taken stock in banks doing a foreign business.

But the Federal Reserve Banks have not exercised the powers contemplated by the Federal Reserve Act in foreign bills or foreign business except in a negligible degree.

The Federal Reserve Banks have been intensely occupied in domestic business, so there is that reason why they have not been disposed to enter the foreign field. These banks have increased their resources until now

they exceed thirty-eight hundred million dollars. But it is also true that six of their nine Directors are chosen by the privately owned banks some of whom fear the competition of the Reserve Banks in foreign banking.

Congress later amended the Federal Reserve Act, at the request of the Federal Reserve Board, and gave the Federal Reserve Board authority to *require* the Federal Reserve Banks to establish foreign branches, but practically nothing has been done under this authority granted by Congress. Senate Bill 3928 proposes to add a new Section to the Federal Reserve Act as Section 25 A., creating a Federal Reserve Foreign Bank of the United States, under the supervision of the Federal Reserve Board to be located in the City of

New York, with a capital of one hundred million dollars, with an initial capital of twenty millions, the stock to pay five per cent., to be non-taxable, to be offered to the public and to the banks at par and if not taken by them to be taken by the United States Government.

The powers proposed for this bank are practically the same as are given to the Federal Reserve Banks, but the management of the bank is put into the hands of directors, nine in number to be designated by the President of the United States. The proposed Act directs that the members of the board shall be men of tested mercantile experience and fairly representative of the various parts of the United States. It does not say that they shall not be bankers, but if they are bankers they must be bankers

who have had tested mercantile experience, such as is required of the Governors of the Bank of England.

THE PURPOSE OF THE BILL

The purpose of this proposed Act is to establish a publicly controlled agency in charge of men with tested mercantile experience, who shall administer the bank in the interest of American commerce, of American importers and exporters, of American manufacturers and producers, in the interest of American consumers, and not merely in the interest of bankers, but in co-operation with the bankers, as the Bank of England or the Bank of France co-operates with other banks while being influenced also by the general public interest.

Such a bank would buy and sell international bills of exchange and acceptances from and to American and foreign banks who desired to sell or buy such bills.

Such a bank would in this way serve the interests of other banks handling international exchange, but such a bank being publicly controlled would furnish American importers and exporters, manufacturers and producers with credits abroad, with banking facilities and accommodations at a standardized fair rate of profit, which would serve the common interest of American business men.

Such a bank publicly controlled would not expose an importer's business or an exporter's business to trade rivals,—a practise known to exist in certain foreign exchange departments

where Germans systematically conveyed such valuable information to rival German firms.

Such a bank would furnish foreign exchange without profiteering or speculating.

Such a bank would be concerned to keep the American dollar at par and in co-operation with the Government of the United States would take the essential steps necessary to that end, a function which no private bank could exercise.

Such a bank through the Federal Reserve Banks could become a means of extending to every member of the Federal Reserve System foreign banking facilities and information for the benefit of the local importers and exporters, so that a member bank could take a draft of a local exporter on any part of the world

and have it cashed whenever the local bank desired the money.

Such a bank could place these bills with other Federal Reserve Banks and with member banks who had unemployed money.

Such a bank as a bank of deposit could utilize some of the very large deposits now placed at two per cent. and could furnish American importers and exporters banking accommodations at as cheap a rate as does Lombard Street. Lombard Street in London now finances the commercial bills of the world, running into thousands of millions at three and one-half per cent. per annum, while the current New York and Boston rate is a minimum of four and one-half. The international exchange business of the world cannot be brought to America unless America extends ac-

commodations on as favorable terms as London, which is now the commercial and financial center of the world. America has the power.

America, as a matter of fact, has loaned Great Britain and Allies since we entered the war, April, 1917, many billions besides taking over many billions in foreign securities placed in America—buying billions of American securities held in Europe, in addition to the gigantic financing of the war by the United States itself.

Such a bank publicly controlled by having gold deposits in Europe and Asia could make it unnecessary to incur the economic loss of transferring gold back and forth across the Atlantic and Pacific.

Such a bank could not only bring the American dollar to par, but what is more important could fix

the American dollar at commercial par and maintain it there as a standard measure of value for international contracts throughout the whole world. Unless this is done America cannot become the financial center of the world.

Unless this is done the gigantic mercantile marine, which America is now building at great cost, will not be adequately served and supplied with the export and import business necessary to maintain these ships under the American flag.

Such a bank would not only furnish foreign banking facilities to every part of the United States, but would be in a position to furnish reliable credit information to American importers and exporters, manufacturers and producers as to foreign

buyers and foreign sellers; reliable information and accommodation with regard to shipping conditions, storage, insurance and other questions essential to the convenient, economical and safe transaction of international business.

Such a bank publicly controlled is the mechanism through which international exchange can be stabilized, the American dollar maintained at par, American commerce furnished with credit facilities and adequately promoted throughout the world. It is the one thing needed to perfect the Federal Reserve System of the United States, now acknowledged by the banks themselves as enabling them to serve their customers as never before, enabling them to conduct their business with a sense of security they never felt before, and

enabling them to make better returns upon their capital than ever before.

I have felt justified in preparing this brochure that I might call the attention of American business men and of American bankers to the importance of thus perfecting the Federal Reserve System, in the hope that with their approval and cooperation, public opinion might sufficiently crystallize to make itself effective in legislative enactment. Congress does not go very far ahead of public sentiment. This question must be determined by public opinion and this booklet is justified as one of the steps to attract attention and inform the public on this question.

Some of the banks with foreign exchange departments seem to imag-

ine that such a bank would compete with them. The fact is the competition for international bills has taken the very great body of these bills to Lombard Street, and some American banks give their customers the Lombard Street rate by sending their bills to Lombard Street instead of to New York. The bills are issued to the extent of many billions and no bank need fear not getting all of such business as they may really need or desire. The trouble is we have not available the capital required to handle foreign bills and we should take immediate steps to make American banking capital more available for such purpose.

The available capital of American banks with foreign branches at present is inadequate to handle international bills. The imports and ex-

ports of the United States alone the last year exceeded nine billions, and the imports and exports of the world business handling international bills are very much larger yet. A number of the best foreign exchange experts engaged in handling such bills have declared themselves warmly in favor of this measure; they do not fear the Federal Reserve Foreign Bank; they welcome it, realizing it would serve the banks in the same way in the foreign field which the Federal Reserve Banks serve in a domestic way.

Importers and exporters who have studied the question strongly favor the publicly controlled Federal Reserve Foreign Bank. Preparedness now for after-war peace problems is urgent—other nations are vigorously acting. The United States cannot be

a Great Leader of the world in Commerce and Finance unless it leads in fact by concrete steps and by wise laws providing the mechanism for such leadership.

THE END